

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

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Chair
Commissioner
Commissioner
Commissioner
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In the Matter of a Petition for Extended Area
Service from the Henderson Exchange to the
Metropolitan Calling Area

ISSUE DATE: June 11, 2002

DOCKET NO. P-404, 407, 520, 405, 413, 426,
427, 430, 421/CP-00-708

ORDER SETTING EAS RATE ADDITIVES
AND REQUIRING POLLING

PROCEDURAL HISTORY

On June 5, 2000, subscribers in the Henderson exchange filed a petition for extended area service (EAS) between the Henderson exchange, served by Frontier Communications of Minnesota (Frontier) and the Minneapolis/St. Paul metropolitan calling area (MCA).

The MCA is served by nine companies: Bridgewater, Citizens, Eckles, Frontier, Lakedale, Scott-Rice, Sherburne, Sprint and Qwest.¹

On August 30, 2000, the Commission issued its ORDER REQUIRING COST STUDIES AND PROPOSED RATES. In this Order the Commission found that the route fulfilled the adjacency requirement and the traffic criterion and ordered all affected companies to file cost studies and proposed EAS rates. The Commission would then poll Henderson subscribers to determine if they want EAS at those rates.

In January of 2001, the Companies duly filed their cost studies and proposed rates, but the Commission did not proceed directly to polling. Instead, in a series of Orders issued between November 1998 and May 2001, the Commission addressed a series of new issues posed by the need to adapt EAS to the competitive telecommunications market mandated by state and federal law.

¹ Bridgewater Telephone Company, Citizens Telecommunications Company of Minnesota, Inc., Eckles Telephone Company, Frontier Communications of Minnesota, Lakedale Telephone Company, Scott-Rice Telephone Company, Inc., Sherburne County Rural Telephone Company, Sprint Telephone Company, and Qwest Corporation.

On August 14, 2001, the Department of Commerce (DOC) filed its comments. The DOC recommended, among other things, that the Commission adopt Frontier's proposed EAS rates for polling subscribers in the Henderson exchange. The DOC also indicated that the EAS rate additives for the other affected exchanges (the MCA exchanges) should be based on line counts that include measured service customers, exclude transfer payments and also exclude recovery of lost toll contributions.

On August 31, 2001, the Minnesota Independent Coalition (MIC)² filed reply comments indicating that it had no objection to the elimination of transfer payments. Rates were refiled for Eckles, Bridgewater, Scott-Rice, Lakedale and Sherburne.

On September 4, 2001, Qwest filed its reply comments. Qwest agrees that the transfer payment should be eliminated but objected to the exclusion of the lost toll contribution from the EAS revenue requirement. Qwest also noted that because it did not serve the petitioning exchange, it should not include measured service customers in its rate calculations.

This matter came before the Commission on April 18, 2002.

FINDINGS AND CONCLUSIONS

I. The Legal Standard

Extended area service is a service arrangement permitting neighboring telephone exchanges to become a single local calling area with toll-free calling. The criteria for establishing EAS and the procedures for determining EAS costs were set by Commission Orders (the EAS Orders) following an industry-wide fact-finding and policymaking proceeding.³ Briefly, these criteria and procedures are as follows.

- (1) A petitioning exchange must be adjacent to the exchange or local calling area to which it seeks EAS.
- (2) At least 50% of subscribers in the petitioning exchange must make at least three calls per month to the exchange or local calling area to which EAS is sought.

² MIC members include: Bridgewater, Eckles, Lakedale, Scott-Rice, and Sherburne telephone companies.

³ In the Matter of an Investigation into the Appropriate Local Calling Scope, in Accordance with Minn. Stat. 237.161 (1994), Docket No. P-999/CI-94-296, ORDER REACTIVATING THE PROCESSING OF EAS PETITIONS (October 24, 1995) and ORDER AFTER RECONSIDERATION (February 23, 1996).

- (3) The companies serving the two exchanges or local calling areas must determine the cost of installing and operating the proposed EAS route, using Commission-approved costing methods, and file proposed rate additives to recover these costs.
- (4) The Commission must poll subscribers in the petitioning exchange on whether they want EAS at the rates adopted by the Commission.
- (5) If 50% of the subscribers responding to the poll vote yes, the EAS route must be installed.

In this case the Commission has determined that the petitioning exchange meets the threshold adjacency and traffic volume requirements. What remains is to determine the cost of the proposed routes, to set rates reflecting those costs, and to poll subscribers in the petitioning exchange.

II. EAS Rate Additives Set

The companies' final cost studies pass muster under the standards set in the EAS Orders. They reflect actual, specific costs and sound accounting methods. They will be accepted.

The rates based on these cost studies reflect the Commission's position that transfer payments pose a significant risk in a competitive market and will not be permitted, and that EAS rate additives will include recovery of lost access revenue,⁴ as well as lost toll contributions.⁵

However, the rates based on these cost studies were adjusted by Commission Staff to reflect an unlimited calling EAS rate additive and a lower cost option that follows the rate ratio between the residence service and the other services and prorates the distribution between the facilities-cost component and the lost access recovery component in accordance with their relative composition in the total revenue requirement. The proposed rates are set forth below:

⁴ In the Matter of a Petition for Extended Area Service from the Almelund Exchange to the Metropolitan Calling Area, Docket No. P-407, 405, 413, 520, 426, 427, 430, 421/CP-97-1237, ORDER AFTER RECONSIDERATION (November 6, 2000), *reversed in part on the Commission's own motion as to other issues*; In the Matter of a Petition for Extended Area Service from the Osakis Exchange to the Alexandria Exchange, Docket No. 552, 430/CP-98-1148, ORDER ESTABLISHING RATE ADDITIVES AND REQUIRING FURTHER FILINGS (November 6, 2000), *reversed on reconsideration as to other issues*.

⁵ In the Matter of a Petition for Extended Area Service from Lewiston to Rochester, St. Charles, Eyota and Winona, Docket No. P-421, 430/CP-97-1598, ORDER SETTING EAS RATE ADDITIVES AND REQUIRING POLLING, (October 12, 2001).

| Break-Down of Staff Proposed EAS Rate Additives ** for Polling Henderson Exchange | | | | | | |
|--|---|-------------------------------------|-------------------------------|---|---------------------------------|-------------------------------|
| Service | EAS Rate (Unlimited Calling) | | | Lower Cost Option (Measured Calling) Monthly Rate* | | |
| | Facilities- Based | Lost Access Recovery | Total Monthly Rate | Facilities- Based | Lost Access Recovery | Total Monthly Rate |
| Residence | \$0.508 | \$9.561 | \$10.070 | \$0.135 | \$2.547 | \$2.683 |
| Business | \$1.155 | \$21.719 | \$22.874 | \$0.308 | \$5.787 | \$6.094 |
| Key | \$1.300 | \$24.448 | \$25.747 | \$0.346 | \$6.514 | \$6.860 |
| PBX | \$1.563 | \$29.405 | \$30.969 | \$0.417 | \$7.835 | \$8.251 |
| School Service | | | | | | |
| One-Party | \$0.862 | \$16.211 | \$17.073 | \$0.230 | \$4.319 | \$4.549 |
| Key | \$0.970 | \$18.237 | \$19.207 | \$0.258 | \$4.859 | \$5.117 |
| PBX | \$1.168 | \$21.969 | \$23.137 | \$0.311 | \$5.853 | \$6.164 |
| Versaline | | | | | | |
| Monthly | \$1.270 | \$23.890 | \$25.160 | \$0.338 | \$6.365 | \$6.704 |
| One-Year | \$1.039 | \$19.549 | \$20.588 | \$0.277 | \$5.208 | \$5.485 |
| Two-Year | \$0.924 | \$17.378 | \$18.302 | \$0.246 | \$4.630 | \$4.876 |
| Three-Year | \$0.808 | \$15.201 | \$16.009 | \$0.215 | \$4.050 | \$4.265 |
| *Additionally, usage rate of \$0.05 per minute applies. **The sum of the parts may not equal the whole due to rounding. | | | | | | |

The rate additives proposed for the MCA exchanges are set forth below:

| Bridgewater MCA Exchanges Company Proposed EAS Rate Additives | | | |
|--|---|---------------------------------|-----------------------------------|
| Service | Facilities- Based EAS Rate | Lost Access Recovery | Total Monthly EAS Rate |
| Residence | \$0.000 | \$0.002 | \$0.002 |
| Business/ Key/ Centrex | \$0.000 | \$0.003 | \$0.003 |
| PBX Trunk | \$0.000 | \$0.004 | \$0.004 |

| Eckles MCA Exchanges EAS Rate Additives | | | |
|--|------------------------------|-------------------------|---------------------------|
| Service | Facilities-Based EAS Rate | Lost Access Recovery | Total Monthly EAS Rate |
| Residence - Town | \$0.000 | \$0.061 | \$0.061 |
| Residence - Rural | \$0.000 | \$0.076 | \$0.076 |
| Business - Town | \$0.000 | \$0.094 | \$0.094 |
| Business - Rural | \$0.000 | \$0.014 | \$0.104 |
| Key - Town | \$0.000 | \$0.114 | \$0.114 |
| Key - Rural | \$0.000 | \$0.124 | \$0.124 |
| PBX | \$0.000 | \$0.157 | \$0.157 |
| Direct Dial Trunk | \$0.000 | \$0.176 | \$0.176 |
| Payphone | \$0.000 | \$0.179 | \$0.179 |

| Frontier MCA Exchanges Company Proposed EAS Rate Additives (Staff Calculated Break-Down) | | | |
|---|------------------------------|-------------------------|---------------------------|
| Service | Facilities-Based EAS Rate | Lost Access Recovery | Total Monthly EAS Rate |
| Residence | \$0.001 | \$0.015 | \$0.016 |
| Business | \$0.003 | \$0.042 | \$0.045 |
| Key Trunk | \$0.003 | \$0.047 | \$0.050 |
| PBX Trunk | \$0.004 | \$0.058 | \$0.062 |
| School Service | | | |
| One Party | \$0.002 | \$0.033 | \$0.035 |
| Key Trunk | \$0.002 | \$0.037 | \$0.039 |
| PBX Trunk | \$0.003 | \$0.045 | \$0.048 |
| Versaline | | | |
| Month to Month | \$0.003 | \$0.047 | \$0.050 |
| One-Year Term | \$0.002 | \$0.038 | \$0.040 |
| Two Year Term | \$0.002 | \$0.034 | \$0.036 |
| Three-Year Term | \$0.002 | \$0.029 | \$0.031 |

| Lakedale MCA Exchanges Company Proposed EAS Rate Additives | | | |
|---|------------------------------|-------------------------|---------------------------|
| Service | Facilities-Based EAS Rate | Lost Access Recovery | Total Monthly EAS Rate |
| Digital Access Line | \$0.000 | \$0.003 | \$0.003 |
| Payphone | \$0.000 | \$0.005 | \$0.005 |

| Scott-Rice MCA Exchanges Company Proposed EAS Rate Additives | | | |
|---|---|---------------------------------|-----------------------------------|
| Service | Facilities- Based EAS Rate | Lost Access Recovery | Total Monthly EAS Rate |
| Prior Lake and New Market | | | |
| Residence | \$0.000 | \$0.011 | \$0.011 |
| Business | \$0.000 | \$0.027 | \$0.027 |
| Webster | | | |
| Residence | \$0.000 | \$0.022 | \$0.022 |
| Residence - FX | \$0.000 | \$0.031 | \$0.031 |
| Business | \$0.000 | \$0.033 | \$0.033 |
| Business - FX | \$0.000 | \$0.046 | \$0.046 |

| Sherburne Company Proposed EAS Rate Additives | | | |
|--|--------------------------------------|---------------------------------|-----------------------------------|
| Service | Facilities-Based EAS Rate | Lost Access Recovery | Total Monthly EAS Rate |
| Residence | \$0.000 | \$0.001 | \$0.001 |
| Business & Pay | \$0.000 | \$0.002 | \$0.002 |

| Sprint MCA Exchanges Company Proposes EAS Rate Additives (Staff Calculated Break-Down) | | | |
|---|--------------------------------------|---------------------------------|-----------------------------------|
| Service | Facilities-Based EAS Rate | Lost Access Recovery | Total Monthly EAS Rate |
| Residence | \$0.004 | \$0.001 | \$0.005 |
| Business | \$0.009 | \$0.001 | \$0.010 |
| Key/Trunk | \$0.011 | \$0.001 | \$0.012 |
| Pay | \$0.009 | \$0.001 | \$0.010 |

| QWEST's MCA Exchanges Staff Calculated EAS Rates | | | |
|---|------------------------------|--|---------------------------|
| Service | Facilities-Based EAS Rate | Lost Access/Toll Contribution Recovery | Total Monthly EAS Rate |
| Residence Flat | \$0.004 | \$0.000 | \$0.004 |
| Business Flat | \$0.011 | \$0.002 | \$0.013 |
| Business Msg | \$0.007 | \$0.001 | \$0.008 |
| Trunks | \$0.011 | \$0.002 | \$0.013 |
| Centron/ Centrex | \$0.012 | \$0.002 | \$0.014 |
| Pay | \$0.013 | \$0.002 | \$0.015 |

Citizens has proposed not to charge its subscribers in the MCA exchanges.

III. Lower Cost Option for Henderson Subscribers

The Commission generally affords subscribers in exchanges that petition for EAS to the MCA a lower cost option to the flat-rate EAS rates.⁶ In this case the Commission will approve the lower cost option, proposed by staff in the *Break Down of Staff Proposed EAS Rate Additives for Polling Henderson Exchange*, as set forth above. This option allows subscribers to the lower cost option to make approximately 36 calls (each call lasting 4 minutes) before they break even with the flat rate Unlimited Calling Option.

IV. Polling Ordered

The last step in the EAS decision-making process is to poll subscribers in the petitioning exchange to determine if the majority favors installing EAS at the rates set by the Commission. The Commission will proceed to polling. It will also direct Frontier, the carrier serving the petitioning exchange, to provide the information and cooperation required for a fair and efficient poll.

Finally, the Commission will require that both the polling materials sent to subscribers and any tariffs ultimately filed itemize separately the portion of the EAS rate additive that recovers facilities costs and the portion that recovers lost access revenues and lost toll contribution. This information may be helpful in developing and implementing a universal service funding mechanism or in future rate re-balancing initiatives. To ease administration and prevent confusion, however, monthly bills should show only the total EAS rate.

The Commission will so order.

⁶ See February 23, 1996 ORDER AFTER RECONSIDERATION, Docket No. P999/CI-94-296, In the Matter of an Investigation into the Appropriate Local Calling Scope, in Accordance with Minn. Stat. 237.161, (1994).

ORDER

1. The final cost studies by Frontier, Bridgewater, Citizens, Eckles, Lakedale, Scott-Rice, Sherburne, Sprint and Qwest are hereby approved.
2. All subscribers in the Henderson exchange shall be polled on whether they favor installing the EAS routes proposed at the rates approved herein, which are shown below:

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| One-Year | \$1.039 | \$19.549 | \$20.588 | \$0.277 | \$5.208 | \$5.485 |
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| Three-Year | \$0.808 | \$15.201 | \$16.009 | \$0.215 | \$4.050 | \$4.265 |
| *Additionally, usage rate of \$0.05 per minute applies. ** The sum of the parts may not equal the whole because of rounding. | | | | | | |

3. The rate additives for the MCA exchanges of Bridgewater, Eckles, Frontier, Lakedale, Scott-Rice, Sherburne, Sprint and Qwest, as set forth in Section II, herein, are hereby approved.
4. The affected telephone companies shall provide a single EAS number which reflects both the facilities cost and lost access and EAS revenues in customers' monthly bills, if the proposed EAS is implemented.

5. The balloting materials and (if the proposed EAS is implemented) the affected telephone companies' tariffs shall itemize EAS rate additives so as to indicate the portion of the EAS rate additive that recovers facilities cost and the portion that recovers lost access revenue and/or lost toll contribution.
6. The affected telephone companies shall provide cooperation and assistance to the Commission staff and Commission contractors during the polling process. Such cooperation and assistance shall include, but need not be limited to, the following:
 - (a) providing usable, deliverable addresses for all access lines in a format and under time frames set by the Commission staff;
 - (b) providing proof of the accuracy of customer lists as requested by the Commission staff.
7. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

(S E A L)

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